

**ATTACHMENT A-3.1**  
**INCLUSIONARY HOUSING ORDINANCE (IHO) COMPLIANCE OPTIONS:**  
**ILLUSTRATIVE CALCULATION OF THE FOR-SALE IN-LIEU FEE**  
**COMPLIANCE OPTION FOR FY2018-2019**  
**(FOR-SALE)**

The Inclusionary Housing Ordinance (Ordinance) Guidelines describe the method utilized in calculating the For-Sale In-Lieu Fee Compliance Option. The purpose of this document is to illustrate the calculations involved in that process. The figures below reflect the in-lieu fee for fiscal year 2018-2019 (July 1, 2018 to June 30, 2019):

**I. Calculation of the Annual 110% Income Limit for a 2.5 Person Household**

$$\begin{aligned} & \$90,650 \quad [100\% \text{ of Area Median Income (AMI) for 2 person household}] \\ & +\$101,950 \quad [100\% \text{ of AMI for 3 person household}] \\ & \underline{\$192,600} \quad [\text{Sum and divide by two}] \\ & \quad \quad 2 \\ & = \$96,300 \quad [100\% \text{ of AMI for 2.5 person household}] \\ & = \$105,930 \quad [110\% \text{ of AMI for 2.5 person household}] \end{aligned}$$

**This number will be used for FY 2018-19 in-lieu fee calculations.**

**II. Calculation of the Annual and Monthly 110% Affordable Payment**

$$\begin{aligned} & \$105,930 \quad [110\% \text{ of AMI for 2.5 person household}] \\ & \underline{\quad \quad X .35} \quad [\text{Affordable housing costs shall not exceed 35\% of 110\% AMI}] \\ & \quad \quad \$37,076 \\ & \underline{\text{divided by 12}} \quad [\text{To calculate the maximum monthly affordable payment}] \\ & = \$3,090 \quad [\text{Maximum monthly affordable payment}] \end{aligned}$$

**III. Assumptions to Calculate the Affordable Housing Cost for the For Sale In-Lieu Fee**

The following elements of the affordable housing cost calculation will be assumed each year, based upon relevant data pertaining to each. These elements will be determined by referencing industry standard sources or the Housing Department's generally established underwriting criteria. For fiscal year, 2018-19, the Housing Department has determined the following values:

### Attachment A-3.1: For-Sale In-Lieu Fee Calculation

ITEM	VALUE	RATIONALE / SOURCE OF DATA	DATE SET
Interest Rate	3.95%	Freddie Mac Primary Mortgage Market Survey (PMMS) <a href="http://www.freddiemac.com/pmms/pmms_archives.html">http://www.freddiemac.com/pmms/pmms_archives.html</a>	Annually, first week of January
Down Payment	5%	City underwriting criteria	NA
Property Tax/Special Assessments	1.25%	City underwriting criteria	NA
Homeowner Associations Dues (HOA)	\$375/mo	Weighted average of HOA dues for the most recent five for sale housing developments subject to the City's IHO	Annually, first week of January
Utilities	\$75/mo	Weighted average of estimated utility costs per unit for the most recent five for sale housing development subject to the City's IHO	Annually, first week of January
Hazard Insurance	\$0/mo	IH Ordinance emphasizes attached housing. Communities will likely have an HOA, which will cover the Hazard Insurance	NA
Mortgage Insurance Premium (PMI)	80 Basis Points	Federal Housing Administration (FHA) <a href="http://www.fha.com/fha_requirements_mortgage_insurance">http://www.fha.com/fha_requirements_mortgage_insurance</a>	Annually, first week of January
Maintenance & Repair Allowance	\$75	City underwriting criteria	NA

#### IV. Determination of Purchase Related Costs & Affordable Monthly Mortgage Payment

(The figures used in this section are based upon the above chart)

\$3,090 [Maximum monthly affordable payment] less:

- [-] \$400 [Property taxes and assessments (per month) 1.25%]
- [-] \$375 [Homeowner's association dues (per month) \$375]
- [-] \$75 [Utility allowance (per month)]
- [-] \$0 [Hazard insurance premiums (per month) 0%]
- [-] \$250 [Mortgage insurance premiums (per month) 80 BPS]
- [-] \$75 [Property maintenance and repair (per month) \$75]

$$\begin{aligned}
 & [-] \text{ \$1,175 } \quad [\text{Subtract the sum of all housing related expenses}] \\
 & = \text{ \$1,915 } \quad [\text{Remaining amount for maximum monthly mortgage payment}]
 \end{aligned}$$

#### V. Determination of Affordable Housing Cost (aka Maximum Sales Price)

The maximum sales price is calculated by adding the maximum monthly mortgage payment amount to the assumed down payment that will be contributed by the borrower. The maximum mortgage amount will be based on a fixed rate, 5% down, fully amortizing, widely available owner occupied loan, and the above calculated maximum monthly mortgage payment allowable. The calculation functions as follows:

$$\begin{aligned}
 & 3.95\% \quad [\text{Interest rate for loan term of 30 years}] \\
 & \$1,915 \quad [\text{Maximum monthly mortgage payment}] \text{ allows for a} \\
 & \$403,472 \quad [\text{Maximum mortgage amount}] \\
 & \text{ \$21,235 } \quad [\text{Add assumed down payment of 5\%}] \\
 & = \text{ \$424,707 } \quad [\text{Maximum affordable sales price}]
 \end{aligned}$$

**This amount is known as the “Affordable Housing Cost” for the purpose of determining the for sale in-lieu fee amount for FY 2018-19.**

#### VI. Calculation of the Annual Median Sales Price

Calculate the annual median sales price of all attached market rate units in San Jose for the preceding 36-month period that ended in December of the prior year.

- 1) Utilizing information provided by the Santa Clara County Association of Realtors (<http://www.sccaor.com/housing-statistics>) to determine the annual median sales price of an attached market rate unit (Condos and Townhomes in the listing) for the most recent completed year and for the two prior years.
- 2) Utilizing the median sale price for each 12-month period, the Housing Department will calculate the median sale price over the past 36-month period.
- 3) Below is the current estimate based on sales from calendar years 2015-2017:

MEDIAN SALES PRICE CALCULATION			
Year	# of Sales	Median Price	% total (2015-17) transactions
Total 2015	2,557	\$530,000	34%
Total 2016	2,508	\$599,865	33%
Total 2017	2,471	\$637,915	33%
Totals 2015-17	7,536	<b>\$588,636</b>	100%

**This amount is known as the “Median Sales Price Calculation” for the purpose of determining the in lieu fee amount for FY 2018-19.**

## **VII. Calculation of the For Sale In-Lieu Fee**

Calculate the for sale in lieu fee by subtracting the Affordable Housing Cost (also known as the maximum affordable sales price) (Step IV) from median sales price of a market rate unit (Step V). The number of units for which the in lieu fee shall be collected shall be that no less than twenty percent (20%) of the total of all units in the Residential Development.

## **VIII. In-Lieu Fee Additional Charges**

The IHO also allows the Housing Department to collect an administrative fee to account for the estimated costs of administration. This administrative fee may be levied as part of the in-lieu fee or as a separate charge. In addition, the in-lieu fee can account for the estimated cost of increases in the price of housing and construction between payment and the acquisition of land and construction of units.

For FY 2018-19, the Housing Department will collect an administrative fee in the form of an application fee of \$3,200. Therefore, the in-lieu fee described in this document does not currently include an administrative fee in the calculation.

To address estimated increases in the cost of housing and construction between the time of payment of the in-lieu fee and the acquisition of land and construction of units, the Housing Department will has adopted a nominal 2% increase to the fee for that delay (assumes two years). The Housing Department will update this methodology during FY 2018-19 by identifying the appropriate delivery time delay and researching and identifying an appropriate index that accounts for cost increases in the price of housing and construction, which will be included in the in-lieu fee calculation in future years.

### **Simple Calculation:**

Median Sales Price Calculation (Section VI):	\$588,636
	-
Affordable Housing Cost (Section V):	<u>\$424,707</u>
	=
Difference:	\$163,928
	+
In-Lieu Fee Additional Charges:	<u>\$ 0</u>
[Administrative Fee]	+
[2% Increase Due to Delay]	<u>\$ 3,279</u>
	=
In –lieu fee Per affordable unit	<b>\$167,207</b>